Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Message Text

CONFIDENTIAL

PAGE 01 ROME 02725 261757Z

43
ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 SPC-03 SAM-01 AID-20 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 PA-04 PRS-01 USIA-15 FEA-02 INT-08

AGR-20 DRC-01 /194 W
---------- 043055
R 261700Z FEB 74
FM AMEMBASSY ROME
TO SECSTATE WASHDC 3448

C O N F I D E N T I A L ROME 2725

E.O. 11652: GDS
TAGS: PINT, IT, EFIN
SUBJECT: IMF STANDBY AGREEMENT HEIGHTENS DISSENTION IN CENTER-LEFT COALITION

REF: ROME 2658

1. SUMMARY. HOSTILE SOCIALIST REACTION TO ALLEGED DEFLATIONARY POLICIES INHERENT IN ITALIAN ACCEPTANCE OF IMF STANDBY BEING NEGOTIATED BY TREASURY MINISTER LA MALFA HAS RAISED SPECTER OF GOVERNMENT CRISIS. FACED WITH CONTINUED SOCIALIST CRITICISM OF UN-POPULAR AUSTERITY MEASURES, PRIME MINISTER RUMOR HAS DEFENDED GOVERNMENT'S RECORD AND WARNED PSI OF DANGERS OF BRINKMANSHIP. CRISIS PRIOR TO DIVORCE REFERENDUM DOES NOT APPEAR PROBABLE, BUT REMAINS POSSIBILITY IN VIEW OF INCREASING BICKERING WITHIN COALITION. END SUMMARY.

2. COMMITMENTS INHERENT IN $1.2 BILLION IMF STANDBY BEING NEGOTIATED BY TREASURY MINISTER LA MALFA HAVE EXACERBATED LONG-STANDING DISPUTE WITHIN COALITION OVER GOVERNMENT ECONOMIC POLICY, PROVOKING CONCERN THAT SOCIALISTS MIGHT FORCE GOVERNMENT CRISIS WHEN COUNCIL OF MINISTERS REVIEWS ITALY'S "LETTER OF
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 ROME 02725 261757Z

INTENT" TO IMF MARCH 1. SOCIALISTS FEAR THAT LA MALFA IS

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

CLEVERLY UTILIZING STANDBY CONDITIONS TO FORCE GOVERNMENT INTO FULLER COMPLIANCE WITH REPUBLICAN PARTY'S AUSTERE APPROACH TO CURRENT ECONOMIC DIFFICULTIES. TYPICAL OF SICIALIST CONCERN IS COMPLAINT OF PSI DIRECTORATE MEMBER VITTORELLI (CLOSE TO DE MARTINO) THAT, AS NOW DRAFTED, LETTER OF INTENT WOULC IMPOSE "HEAVY MORTGAGE ON ITALIAN ECONOMY, FORCING US INTO DEFLATIONIST POLICY." SOCIALISTS DO NOT WANT A CRISIS, HE ASSERTED, BUT REFUSE TO BE THE ONES "WHO
PAY THE HIGHEST PRICE TO AVOID IT." RUMOR, HE ADDED, SHOULD "EXERCISE IN MORE ACTIVE MANNER HIS-NATURAL FUNCTION OF MEDIATOR BETWEEN DIVERSE INTERESTS REPRESENTED IN THE GOVERNMENT."

3. AGAINST THIS BACKGROUND OF MUNTING SOCIALIST AND FAR LEFT CRITICISM OF THE GOVERNMENT'S UNPOPULAR AUSTERITY MEASURES, RUMOR SPOKE OUT FEBRUARY 25 DEFENDING HIS RECORD AND IMPLICITLY CHASTISING THE SOCIALISTS FOR THEIR SCHIZOPHRENIC ATTITUDE TOWARDS THE COALITION GOVERNMENT. ASKED BY JOURNALISTS WHETHER HE THOUGHT THE PRESENT GOVERNMENT WOULD LAST AND WHY HE DID NOT SPEAK OUT MORE ON CURRENT PROBLEMS, RUMOR REPLIED WITH SPIRIT THAT HE HAD SPOKEN OUT ON MAJOR ISSUES IN THE PAST
AND WILL CONTINUE TO DO SO. THE SITUATON, HE SAID, IS THE MOST DIFFICULT THAT THE COUNTRY HAS HAD TO FACE FOR SOME TIME. HE GOVERNMENT HAS HAD TO TAKE UNPOPULAR MEASURES INVOLVING PRICE INCREASES IN ORDER TO AVOID A WORSE SITUATION FROM DEVELOPING. HE HAS NOT ONLY PERFORMED A MEDIATING ROLE WITHIN THE COALITION, BUT UNDER HIS LEADERSHIP THE GOVERNMENT HAS ALSO TAKEN IMPORTANT DICISIONS SUCH AS THE LAW ON INCENTIVES FOR DEVELOPMENT OF THE SOUTH. IN A REFERENCE TO CONTINUED COMMENTS BY SOME PSI LEADERS TO THE EFFECT THAT THERE IS A LIMIT TO THE PSI'S ABILITY TO SUP-
PORT THE COALITION ON UNPOPULAR ECONOMIC MEASURES, RUMOR WARNED THAT WHILE IT IS GENERALLY RECOGNIZED THAT A GOVERNMENT CRISIS WOULD BE "FATAL", IT IS JUST AS TRUE THAT REPEATED DEBATES ON WHETHER OR NOT TO HAVE A CRISIS ARE FULLY AS DANGEROUS.

4. MEANWHILE, TREASURY SECRETARY LA MALFA INFORMED THE AMBASSADOR FEBRUARY 26 THAT HE WILL RESIGN RATHER THAN AGREE TO ANY CHANGE IN THE LETTER OF INTENT HE WILL PRESENT TO THE CABINET ON MARCH 1.

5. COMMENT: ALTHOUGH LA MALFA FREQUENTLY THREATENS TO RESIGN AND SELDOM DOES, THERE IS NO DOUBT THAT THE SITUATION IS TENSE.
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 ROME 02725 261757Z

SOCIALIST DISCOMFORT AT HAVING TO SHARE IN RESPONSIBILITY FOR THE IMPOSITION OF UNPOPULAR AUSTERITY MEASURES IS ONCE AGAIN MOVING THE GOVERNMENT TOWARD THE BRINK. HOWEVER, RUMOR'S RESPONSE PUTS THE PSI ON NOTICE THAT ITS CONSTANT THREATS OF CRISIS ARE EX-
HAUSING THE PATIENCE OF ITS GOVERNMENT PARTNERS AND OF THE PRIME MINISTER PERSONALLY. THE PRIME MINISTER'S REMARKS UNDERSCORE THE POINT THAT THE PSI WOULD BEAR THE FULL ONUS FOR ANY CRISIS NOW. DESPITE CONCERN AT HAVING BEEN OUT-GENERALED BY LA MALFA ON THE

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

IMF ISSUE, THE SOCIALISTS HAVE MUCH TO LOSE BY PROVOKING A CRISIS.
SUCH A COURSE WOULD RISK LEAVING THE DC IN FULL CONTROL OF
THE GOVERNMENT DURING THE DIVORCE REFERENDUM CAMPAIGN AND WOULD
CAUSE THAT CAMPAIGN TO BE WAGED IN A CLIMATE OF GRAVE DOUBT AS TO
THE FUTURE OF CENTER-LEFT COLLABORATION. AT THIS JUNCTURE, IT
APPEARS MORE LIKELY THAN NOT THAT AT THE WEEKS END THE COALTION
WILL ONCE AGAIN HAVE BACKED OFF FROM THE BRINK. VOLPE

CONFIDENTIAL

NNN

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, INFLATION, PARTY SCHISMS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 26 FEB 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ROME02725
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974028/aaaaahrb.tel
Line Count: 122
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: ROME 2658
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 22 MAY 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 MAY 2002 by boyleja>; APPROVED <27 DEC 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: IMF STANDBY AGREEMENT HEIGHTENS DISSENTION IN CENTER-LEFT COALITION
TAGS: PINT, EFIN, IT, IMF
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005